

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2326-01
BILL NO.: HB 1159
SUBJECT: Taxation and Revenue-Income-Retirement Systems and Benefits-General
TYPE: Updated
DATE: March 3, 2000

#Updated to reflect additional information pertaining to the same subject.

#FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
#General Revenue	\$0	(\$130,175,000)	(\$154,618,333)
#Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$130,175,000)	(\$154,618,333)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

#FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state that beginning January 1, 2001, this legislation exempts all public pensions from state income tax and eliminates the income limitation on the private pension exemption.

DOR staff state that they are already processing both private and public pensions. Therefore, there is little or no administrative impact to the Department of Revenue.

Officials of the **Missouri Department of Transportation (MoDOT)** state that this proposal would not fiscally impact their agency.

Officials of the **Office of Administration (COA)** state that this proposal exempts all Federal, Missouri and local retirement benefits from state income tax, and removes the phase in and income limits on deducting private pension income, allows all taxpayers to deduct the first \$5,000 of private pension income in tax year 2001, and \$6,000 for all tax years after 2001.

DEDUCTION OF ALL GOVERNMENT PENSION INCOME

Federal retirement benefits, including military, were obtained from the 1999 Statistical Abstract of the United States, Table 618. Missouri's share was assumed to be 1.9% of the national total. Benefits for the state and local retirement systems mentioned in the proposal were obtained from the Joint Committee on Public Employee Retirement. From the total of the federal, state and local benefits the amount that can already be deducted under RSMo Section 143.124 is subtracted out. The amount to be subtracted out is from the 1998 Tax Expenditure Report. A 6% marginal tax rate was assumed. A 4% growth rate of benefits was assumed. COA staff assumes that taxpayers will not adjust their withholdings in FY 2001 to take advantage of this exemption. The revenue reduction to General Revenue is \$0 in FY 2001, \$143.7 million in FY 2002, and \$150.3 million in FY 2003.

According to information provided by the **University of Missouri Research Center** the average tax rate for the public pension portion of this proposal should be calculated at 4.1%.

PRIVATE PENSION EXEMPTION

The private pension portion of this proposal exempts the first \$5,000 of private pension income in 2001, and \$6,000 after. There is no income limit on this deduction. The total amount of pension income for Missouri was reported in the Spring 1999 Statistics of Income. The average pension is \$11,368 and the number of returns with pensions is 420,842. Therefore, it is assumed that all returns would receive the full deduction. From the total pension benefits the amount that

ASSUMPTION (continued)

can already be deducted under RSMo section 143.124 is subtracted. The amount to be subtracted for the government pension deduction is from the 1998 Tax Expenditure Report. The fiscal note for HB 491 shows that the amount subtracted for the private pension deduction should be \$31.8 million in FY 2000, \$46.1 million in FY 2001, \$60.7 million in FY 2002 and \$71.3 million in FY 2003. A 6% marginal tax rate was assumed. The number of returns with pension income is assumed to grow at the rate of the 65 and over population, .25% annually. COA staff assumes that taxpayers will not adjust their withholdings in FY 2001 to take advantage of this exemption. The revenue reduction to General Revenue is \$0 in FY 2001, \$36.9 million in FY 2002 and \$59.9 million in FY 2003.

According to information provided by the **University of Missouri Research Center** the average tax rate for the private pension portion of this proposal should be calculated at 5.2%.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

Loss to General Revenue Fund

# Public Pension Exemption	\$0	(\$98,195,000)	(\$102,705,000)
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# Private Pension Exemption	\$0	(\$31,980,000)	(\$51,913,333)
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**# ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

<u>\$0</u>	<u>(\$130,175,000)</u>	<u>(\$154,618,333)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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\$0	\$0	\$0
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

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DESCRIPTION

This bill authorizes an individual income tax deduction equal to 100% of the amount of any annuity, pension, or retirement allowance received by a retired federal, state, or local government employee, regardless of the amount of the allowance or the income of the retiree. Under current law, federal, state, and local government retirees may deduct up to \$6,000 of pension allowances received each year if their income is not in excess of \$32,000 for married or \$25,000 for single taxpayers.

This proposal also eliminates income cap on deduction for private pensions.

This bill will become effective January 1, 2001.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Missouri Department of Transportation
University of Missouri Research Center



Jeanne Jarrett, CPA
Director
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